

# **Managing Cultural Heritage: Heritage Listing and Property Value**

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## Abstract

Local governments across Australia are often placed in the invidious position of acknowledging the long term value to the community of a property or place by including it in a heritage register whilst alienating some current, often vocal, sectors of that community who raise concerns over an actual or perceived loss of individual, usually proprietary, rights. Whilst such conflicts of interest are inevitable, the necessity to manage such situations sensitively and effectively remains the lot of the local authority.

In order to assist with the appropriate management of such situations, a study has been undertaken into the effects of heritage listing on property value in the context of the management of Queensland's cultural heritage. This has been achieved through a review of key domestic and international studies and seven themes – impacting upon a range of stakeholders across the community - have been elicited from the research and are reported in this paper.

Despite the diversity of the material reviewed, a number of defining variables were nominated by the studies as providing useful bench marks – such as geographical context, building type and other variables, and a range of methodologies. The creation of a matrix has been identified as an opportunity to generate an original contribution through this research and which it is anticipated will be developed from the subsequent field research. The methodologies identified in the literature fell into three main groups – macro, micro and attitudinal – and it is proposed that this broad structure will be used as a framework for the development of an appropriate methodology for the second stage of this study in order to produce operational guidelines for local authority application.

**Keywords:** Cultural heritage, property value, local government, Queensland, Australia.

## **1 Introduction**

### **1.1 Background**

Statutory controls on places having heritage significance were first introduced in Queensland through town planning schemes. Initially these controls were in the form of statutory considerations for the preservation of (undesigned) places to be applied in the decision making process. Such controls were adopted in the 1978 Town Plan for the City of Brisbane and a number of other planning schemes. In 1985 the Cook Shire Council's planning scheme was amended to include a development control plan covering Cooktown and the objectives of this planning instrument included the retention of heritage qualities. To achieve this, 31 sites were listed for the retention of buildings. In February 1989 the Town Plan for the City of Brisbane was amended to incorporate a Table of Heritage Places. This table identified approximately 90 sites, all within the central business district, that were to be retained. Strict penalties for demolition of these places were introduced as well as compensatory measures such as transferable development rights.

State legislation in the form of the Heritage Buildings Protection Act 1990 broadened the scope of heritage conservation. This legislation, which had a sunset clause of two years, introduced an interim register of places accorded protection by the legislation. The legislation was replaced by the Queensland Heritage Act in 1992. Under this current legislation approximately 1300 properties are listed on the Queensland Heritage Register and these properties are regulated through procedures that require approval prior to carrying out a variety of works including demolition, alterations and additions and painting that impacts on the appearance of the place. It is also relevant that the regulation of works can be extended to cover any building not permanently listed, through processes of provisional listings and injunctions.

Listing on the State Register also confers some benefits including reduced rates and land tax and tax rebates for approved conservation expenditure.

Inclusion on the Queensland Heritage Register requires the demonstration of a level of significance to the State. However there are many properties that fail to meet the threshold of State significance but are nevertheless important heritage places in the local context. In these circumstances, local authorities continue to supplement the Queensland Heritage Register through the development of their own separate lists.

The nature of controls imposed by planning schemes on heritage places varies considerably. However, there is a general requirement to conserve the visible exterior of the place. In most cases the planning scheme provisions do not prevent interior modifications or extensions or alterations that are not visible from the street. In this regard they are generally not as onerous as the restrictions imposed on places included on the State Register, nevertheless they present other additional constraints over development on the site.

While imposing some constraints on heritage places, planning controls are also able to afford some inducements through relaxations. In the first instance the viability of conservation may be significantly enhanced through an expansion of lawful use rights that reflect the nature of the buildings being conserved and their location. Viability may also be enhanced through relaxations of restrictions of site development and development obligations. Further measures such as floorspace bonuses and transferable development rights may also be provided. Some local authorities provide reduced development fees and free heritage advice for projects involving listed properties.

## **1.2 Constraints on development**

From the preceding introduction it is evident that the incorporation of a property on a Heritage Register brings with it constraints over the extent and nature of works that may be allowed to occur on the property. These constraints may be offset to some degree by concessions and other incentives afforded by the listing agency. Nevertheless there is a general perception by many property owners that once a property is listed on a Heritage Register the value of the property will be reduced.

The purpose of this paper is directed towards achieving a better understanding of the circumstances in which Heritage Listings may impact positively or negatively on property values and to work towards developing a methodology for identifying various circumstances pivotal to any impacts and, potentially, towards means of validation through accepted valuation procedures.

It is anticipated that the final study will be of assistance to local governments which frequently face a degree of resistance from affected constituents.

## **1.3 Methodology and limitations**

The methodology to be followed in this pilot study commences with a review of previous studies conducted in this field. This review will focus on the scope and application of the research as well as on the methodology followed. The material will be evaluated having regard to the transferability of results as well as the ability to replicate methodological approaches where suitable.

Using material derived from the review of previous studies, this study develops a framework for distinguishing a range of contextual conditions that may be relevant to the assessment of impacts.

A second key determinant for developing a methodology is that of data availability at a reasonable cost and within a normal timeframe. Although this paper does not fully report this section of the study, it has been found that co-operative access to the identification of the listings as well as to details of property sales is a limitation to some aspects of comparability between jurisdictions.

# **2 Review of Key Domestic and International Studies**

## **2.1 Context of the studies reviewed**

A literature search of the subject identified a number of studies carried out over the past two decades. However most of these studies are reported in a condensed form in journals and conference papers or in summaries available from the internet. As a consequence there is some hesitancy in being confident about the applicability of any of the results. Approximately 25 reports and articles were reviewed. Most centred on Australian experiences with two from Northern America and one (continuing) from the UK.

The review of the literature focuses on the impact of heritage listing on property values - in the built environment only and from a purely monetary perspective. Though recognising both the existence and importance of non-financial value components in the community, their assessment is extraneous to the definition of 'value' adopted here and is not discussed in detail.

Extant research on the impact of heritage controls on property values is not extensive and, although the literature search has been undertaken for this study is intended to be comprehensive, no more than 160 references were generated but only those referred to in the text are included in the bibliography. The material which has been reviewed comes from a range of Australian and international sources and indicates that there is no consistent message which the literature is supporting. In contrast, there is a strong theme of the diversity and elusive nature of the measure of financial impact which listing has on property value.

The impact on property value, of heritage control, would appear to be largely a product of the nature of heritage controls - restrictiveness dictates impact, the property class involved (i.e. a particular set of heritage controls may have the effect of enhancing the value of residential property whilst at the same causing a diminution in the value of commercial property) and the level of activity of the market.

The objective of this section is to survey a sample of the core literature *a propos* the impact of heritage listing on property values within both a domestic and international context. The following contextual constraints and limitations to the review should be noted:

- a focus on more recent research
- the methodology employed and key findings are discussed
- there are very few Australian studies in this field, and little contemporary research
- the review is not exhaustive but intended as an overview of the more relevant published material.

The central studies addressing this theme are discussed below and their findings summarised in Table 2.3. Thereafter concluding comments are offered regarding both findings and methodologies employed.

## 2.2 Review of the studies

### 2.2.1 D'Arcy, J.A. (1991) *The preservation of historic buildings and sites and the cost implications.*

The study found that:

- The average value increase for all properties within the Melbourne metropolitan area over the period 1986 to 1989 was 69% whilst those on the Historic Buildings Register showed a lower average increase of 36.3%.
- The average value increase for all non-metropolitan property over the period 1986 to 1989 was 58.6% whilst those on the Historic Buildings Register showed an average increase of only 38.9%.
- The average value increase in metropolitan area single residential dwellings over the period was 61.6% whilst those on the Historic Buildings Register showed a higher average increase of 81%.
- The average value increase in non-metropolitan single residential dwellings over the period 1986 to 1989 was 42.3% whilst those on the Historic Buildings Register showed an almost identical average increase of 42.9%.
- Listed non-residential dwellings increased in value by 34% within the metropolitan area and 37.9% within the non-metropolitan area over the period 1986 to 1989. The study provides no corresponding value increase data for the parent property groups. However, it

can be seen that these increases lie well below the increases seen for all metropolitan property (69%) and all non-metropolitan property (58.6%).

Anecdotal evidence was cited to suggest that the overall impact was positive for metropolitan area residential property, neutral for non-metropolitan residential property and negative for metropolitan and non-metropolitan area non-residential property. In respect of the positive impact for the metropolitan property, most was located in inner city suburbs and the listed property is likely to have enjoyed value increases above the city wide average as a result of location.

The study, in recognising that the effect of listing on property values will differ between property classes and geographic locations, considered a number of case studies. Of the three residential properties assessed using valuation data, the effect of registration was found to be positive on one property, neutral on one and negative on the third. The five remaining case studies involved commercial and special purpose properties in which the impact was found to be negative on each property.

**2.2.2 Countrywide Valuers in association with Trevor Budge and Associates. (1992). *Heritage and property valuations in the shire of Maldon: A study of the effects of planning and heritage controls on property valuations.***

The findings indicated that:

- Average sale prices for 'notable' residential properties in Maldon, expressed as an index, were almost 29% higher at the end of the study period than those of 'other' residential properties
- Over the period January 1970 to December 1990 a greater number of sales transactions were recorded in Maldon for listed residential properties than for non-listed residential property. Whilst the total number of notable properties in Maldon was 234, as opposed to 343 'other' residential properties, 391 'notable' properties sold over the study period whereas only 283 'other' residential property sales were recorded for the same period.
- The number of purchasers from Maldon buying properties in Maldon, decreased as a percentage of all sales over the study period, with a corresponding increase in the number of Melbourne based purchasers.
- Qualitative data indicated that purchasers displayed a strong preference for listed as opposed to non-listed residential properties in Maldon illustrating the higher demand seen for 'notable' dwellings and suggesting that heritage controls were not viewed by purchasers to represent a significant encumbrance.
- Little evidence of any significant movement in property values immediately following the introduction of heritage controls in Maldon was found. A small decrease in the average sale price was recorded in 1971 and may have resulted (at least in part) from the uncertainty surrounding the introduction of planning controls in 1969. However, the decrease was only 3.5% on the average sale price over the previous year.
- Maldon property values were found to be comparable to, or higher than, most other towns in the survey.
- **Of the eight towns studied, those with the greatest historic character showed the greatest increases in property values over the study period.**
- The study notes the generally above-average strength of the commercial area in Maldon relative to the other townships reviewed in the study and suggests this is largely due to Maldon's healthy tourism trade which is in turn a product of the historical character of the township.

**2.2.3 Quigley, J. (1987). *Incentives for heritage conservation and the effect of heritage listing on the value of residential properties.***

Analysis of the 32 survey responses received suggested that:

- 64% of the sample group believed that heritage listing had affected the value of their property.
- Of those who believed their had been an impact on value 31% were unsure of the amount and/or direction of the perceived movement; 25% felt the influence on value had been negative; and 44% considered the impact to have been positive.
- Almost half the respondents had had the listing placed on their property after they had purchased it. Of this group, 80% felt the listing has influenced value with respondents roughly evenly split between those who were unsure about the nature of the influence, those who believed it had been positive and those who felt it was negative. One respondent noted the large negative influence associated with their listing as their property consisted of a large block of land that had previously enjoyed significant development potential.
- 70% of respondents owned their property prior to its being listed whilst the remainder (30%) purchased their property after listing. From this latter group, 60% indicated that the listing did not influence the amount they were prepared to pay to purchase the property, 20% were unsure of the amount of the influence, and 20% believed the listing added about 1% to the amount they were prepared to pay for the property.

The author concluded that ‘in the majority of cases a heritage listing has an insignificant effect on the value of a residential property, except for when the development potential of that property is greatly reduced.’ (Quigley, 1987, p. ii)

**2.2.4 Urban Consulting Group. (1995). *Economic effects of heritage listing***

This study was commissioned by the Australian federal government to assist with policy development in heritage management. It examines prior research on the broader economic effects of heritage listing and presents six case studies, from four Australian metropolitan centres, dealing with particularly large and complex refurbishment and adaptive re-use proposals for commercial properties. The studies highlighted the difficulty of generalising about the economic effects of listing and stated: ‘each case was influenced by the nature of the building and its use, the availability and feasibility of alternative uses and the condition and location of the building.’

The methodology employed a literature survey, specialist heritage, valuation and real estate consultants, six case studies and a seminar presentation to the commissioning government heritage authorities.

**The study suggests policy approaches** which may be employed to reduce the impact of such additional controls and also reviews heritage legislation from a number of different jurisdictions, with a focus on their economic/financial effects.

The study nominates some criteria consistent with strategies which will result in the amelioration of the negative impact of heritage listing. These include:

- consistency between governments in their heritage legislation
- early and comprehensive advice to developers on the heritage and planning controls affecting the development proposals
- increased community awareness of heritage control
- a more flexible interpretation of building controls in heritage places



- an increased awareness by policy makers and administrators of the potential market impacts of heritage listing and associated controls.

The study concludes with a discussion of the wider community benefits which are likely to accrue from the specific, property focussed economic outcomes.

**2.2.5 Krastins, K. (1997). *The implications of heritage listing on property valuations: a case study of residential development in Geelong.***

Krastins examined the sale records and council valuations for 100 residential properties in Geelong over a 12-year period from the mid 1980's, when heritage controls had been first introduced. Of these 100 residential properties, 50 were subject to heritage controls in the planning scheme while the other 50 were roughly equivalent properties that were not affected by a heritage control.

Krastins concluded that other factors which influence property values such as street width, location, off-street parking have the most significant impact on property value. These results note that there was an increase in the value of the buildings with heritage controls of 19.5% compared to 6.9% for those properties which were not subject to heritage controls (Heritage Victoria, Department of Infrastructure, 2001, p. 6).

**2.2.6 Investment Property Databank (IPD). (2000). *The investment performance of listed office buildings.***

This study, undertaken for the Royal Institution of Chartered Surveyors and English Heritage, concluded that listed office buildings in the United Kingdom were capable of producing a financial rate of return as good as and, in many cases, better than more modern office buildings. The research forms part of a long-term monitoring exercise to track the investment performance of listed commercial property with this study representing an updated version a report by the same title released in 1996<sup>1</sup>. The findings are based on a comparative analysis of properties that are held as investments and monitored by IPD. In total, this comprises some \$75 billion worth of property held within 240 institutional portfolios. Approximately a third of this is in the office sector. Of this, about 10% are listed properties and the investment performance of these properties has been compared to those of their unlisted counterparts. As a result of the relatively small number of listed properties contained in the sample group the IPD research does not provide any regional analysis beyond London and the rest of the United Kingdom.

The report's main findings include the following:

- At the national level, 1998 returns on listed commercial buildings were 11.9%, compared with 11.4% for unlisted buildings. This healthy performance was seen to result largely from strong rental value growth at 12.5%, well above the 9.7% recorded in the unlisted office market.
- Whilst a number of factors including unfavourable yield movements served to reduce the impact of rental growth rates, the strength of occupier demand was still sufficient to generate capital growth of 4%, half a point above unlisted offices.
- Over the full 18-year period covered by Investment Property Databank's records, listed and unlisted buildings have achieved near identical returns of 8.8% p.a. and 8.9% p.a. respectively.

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<sup>1</sup> See also Investment Property Databank. (1993). *The investment performance of listed office buildings*. London: RICS and the subsequent updates released in 1994, 1995 and 1996.

- During the period 1994-1998 (with the exception of only 1996), listed office properties have provided superior annual total returns relative to their unlisted counterparts. On a national basis listed office properties produced a five-year annualised return of 9.9% - a figure over half a percent above that of the unlisted market.
- Listed offices in London produced a return of 12.8% in 1998, compared with 11% for unlisted offices. Again, this was largely seen to be a result of superior rental value growth. The report goes on to note that listed offices in London had out-performed their unlisted equivalents in two of the last three years reported.
- Outside the London area, listed offices did not perform as strongly in 1998, with returns of 8.7%, compared with 11.9% for their unlisted counterparts. This is the second worst margin of under-performance recorded in the 18-year study period. However, over the entire 18-year period, listed commercial buildings outside London have produced an average annual rate of return of 8.9%, higher than either listed office buildings located in London (8.8%) or unlisted offices outside London (8.7%).

**2.2.7 Scanlon, K., Edge, A., & Willmott, T. (1994). *The listing of buildings: the effect on value.***

This study, sponsored by the Department of National Heritage, English Heritage and the Royal Institution of Chartered Surveyors, considered the economic effects of listing buildings, with the aim of determining the extent of the potential effect of listing on the capital values of such buildings.

The main findings deriving from the case studies, interviews and wider analysis conducted include:

- Of the eleven case studies undertaken the influence of listing on value was generally found to be negative. However, given a 'worst case' criterion applied in sample selection this result was to be expected.
- The case studies indicate that rental rates vary by a factor of approximately four between the three cities studied (e.g. £8 per sq ft in parts of Manchester to £30 - 40 per sq ft in Mayfair). However, construction and renovation costs show far less variation (e.g. London construction prices are 1.14 times the national average whilst costs in Avon are 0.94 % of the national average). Accordingly, in areas commanding higher rental levels the renovation of older buildings can be more easily justified on a purely financial basis than in areas with lower rents.
- Conservation laws and policies customarily restrict options in site use, particularly where non-residential property is involved. Such restrictions can generally be expected to cause a diminution in property value.
- The heritage listing of income producing non-residential property often reduces or all together eliminates potential development value. As a consequence market value diminishes. This is however a one time cost borne by the owner at the time of listing and should not affect future performance. This effect was most notable in small buildings situated in locations exposed to high development pressures.
- The study found that negotiations regarding listed building consents frequently took several years to be finalised. Further, a lack of consistency in the application of listing and other heritage-related planning controls was found to exist between areas, introducing greater uncertainty. The association between listing, delay (and hence cost) and uncertainty may depress market values for listed buildings. Similarly, the report notes the potential for higher maintenance and repair costs to be associated with listed buildings which again may be capitalised into lower market values.

**2.2.8 Schaeffer, P.V., & Millerick, C.A. (1991). *The impact of historic district designation on property values: an empirical study.***

Based in Chicago, the study found that the National Historic District designation had a positive economic influence on residential properties within the district. Furthermore, other substantial external benefits were also found to be present. However, the designation of two smaller neighbourhoods within the study area as *Chicago Historic Districts* (for which more restrictive rules apply) had a negative effect on property values suggesting that the nature of the influence on property values may depend on the restrictions imposed by different heritage protection regimes.

**2.3 Summary of studies reviewed**

In conclusion, and as illustrated in Table 2.3 'Summary of reviewed studies', it can be seen from the diversity of outcomes that the market context is of paramount importance in determining the impact of heritage listing on property value. As discussed below, it must be recognised that heritage controls are but one of a multitude of factors which impact upon property value and that isolating and quantifying the specific effects of heritage controls is difficult in the extreme.

**3 Findings - the seven themes**

**3.1 Principal outcomes**

The principal outcomes which have been identified from the review of previous studies discussed in the previous section may be nominated as:

**1 *Marginal impact on residential property***

The effect appears generally marginal for residential property when taken as a whole – although the evidence indicates a tendency for the direction of value movement to be positive as opposed to negative - particularly where entire precincts are involved - though significant upside or downside value movements may be associated with individual cases. It may be surmised that there is a stabilisation effect occurring where heritage controls are being introduced within districts/neighbourhoods/precincts.

This effect of certainty may account for the positive influence on the property market's expectations of statutory intervention: owners are accorded greater protection particularly from future development; there is the expectation of increased consistency and greater certainty with the character of the area legally protected. With development and redevelopment tightly controlled, it may be more difficult for governments to neglect heritage listed precincts in residential areas with regards to the provision of services and infrastructure.

Whilst restrictions may conversely be seen as limiting owners' options, the benefits flowing from heritage listing appear, in most residential cases, to outweigh the costs (financial or otherwise e.g. loss of property rights) associated with such protection.

**2 *Future value of the asset more certain than would perhaps otherwise be the case***

In the case again of residential property which, in the majority of cases, will have little or no development potential which is being constrained by listing, the certainty surrounding listing may be a very positive outcome as the opportunity to exclude non-sympathetic development may be ascertained.

**Table 2.3: Summary of reviewed studies**

<i>Author</i>	<i>Date</i>	<i>Methodology</i>	<i>Property Class and Location</i>	<i>Sample Size</i>	<i>Effect of Heritage Listing on Property Value</i>
D'Arcy	1991	Comparative movement in rating value	Residential – Melbourne Metropolitan Area	97	Positive
			Residential – Melbourne Non-Metropolitan Area	48	Neutral
			Non-Residential – Melbourne Metropolitan Area	202	Negative
			Non-Residential – Melbourne Non-Metropolitan Area	198	Negative
Countrywide Valuers et al.	1992	Comparative sales price movement	Residential – Maldon, Victoria		Positive
Quigley	1987	Postal survey of owner's perceptions regarding impact of listing on value	Residential – Adelaide	32	Neutral Negative when development potential significantly reduced
Krastins	1997	Comparative sale price/rating valuation movement	Residential – Geelong, Victoria	100	Positive
IPD	2000	Comparative analysis of investment performance listed v unlisted	Office Property – Central London and outside London	*	<b>Neutral</b> effect on return over full 18-year study period ∴ nil impact on (investment) value
				*	1998 return - <b>Positive</b> effect on return ∴ positive impact on value of investment
				*	5-year annualised return 1994-1998: <b>Positive</b> effect on return ∴ positive impact on (investment) value
Scanlon, Edge and Willmott	1994	Case studies compares EUV of hypothetical development value; interviews; wider analysis e.g. statistical analysis of listing in the 3 subject cities	Non-residential - Westminster, Bristol and Manchester, UK	11	Negative <sup>2</sup>
Schaeffer and Millerink	1991	Regression based methodology	Residential - Chicago, Illinois	252	<b>Positive</b> – effect from <i>National Historic District</i> designation but designation of 2 smaller areas in the study area as <i>Chicago Historic Districts</i> (more control) had a <b>negative</b> effect on value.

\* comprised all listed properties in over 240 institutional portfolios – approx. 10% of total

<sup>2</sup> Given the 'worst case' criteria applied in sample selection this result was to be expected. It must be noted that the sample group is not representative of the parent population as a whole.

### **3 *Greater potential for negative impact on non-residential property***

The reviewed research suggests the impact of heritage controls on property values may be more pronounced for non-residential as opposed to residential property.

However, whilst a clear pattern of value diminution in non-residential property emerges in the above studies, the age of much of this research leads, in light of contemporary metropolitan conditions, to the question of whether different conclusions would be arrived at were the studies to be updated – e.g. urban regeneration, growing demand for inner city living, increases in mixed-use development, etc.?

### **4 *The nature of the heritage control is significant***

Where heritage controls are descriptive rather than prescriptive in nature, greater uncertainty may result. Higher maintenance and repair costs may also be present. The result of uncertainty may be to depress market value.

### **5 *Constraints to development potential***

A property's development/redevelopment potential (somewhat inappropriately termed 'highest and best use' in property parlance) is frequently reduced or removed altogether as a result of heritage control. This has an impact on the price which the property can be sold for after the listing has been established, or when the possibility of such control is perceived ('blight'). Whilst this negative impact is borne by current owner at the time of listing, it will remain with the property whilst it is relatively constrained compared to property in a similar use and location.

### **6 *Relative insignificance of impact of listing***

Whilst the literature tends to demonstrate the problems of identifying the precise impact of listing, this is due in part to the relatively limited impact it has on the value of most property – that with development potential being the notable exception. Overall movements in the property market are a response to changes in market fundamentals such as supply and demand for property or changes to the macro-economic environment. Such indicators will almost certainly have more effect on the market values of property in general than any restrictions imposed by listing. What listing does is to affect relative values and this means that some owners are affected more than their neighbours. The problem is to measure the incidence of this at a property specific level. Individual property valuations may be able to assess this but it is very problematic at the aggregate scale, except when public cost or benefit is being measured.

No useful discussion of valuation methodology has been identified in the reviewed literature and it may be helpful if the proposed research for this study generates a discussion of the nature of property value and its measurement.

### **7 *Limitations of the studies reviewed***

A number of constraints have been identified which should be recognised as limiting the validity of the research based on the reviewed studies.

These limitations include:

- Whilst the property data used in the reviewed studies is mostly based on empirical study, the intrinsic feature of property value is its locational specificity. It should be recognised that the identification of the impact of heritage listing on value may, in many cases, be subsumed by locational variations.
- Small sample size: with the exception of the UK IPD study in which 10% of \$75 billion of property has been measured over 18 years, most studies have focussed either on heritage property listed within a locality (where no more than 350 properties have been monitored) or on individual case studies, generally between six and eleven. Larger sample sizes might be expected to produce more consistent results - if an appropriate measure can be identified to aggregate the properties.
- Age of studies: again, with the exception of the on-going IPD studies and the Abelson and Dominy study in 2000 which focuses on public not private benefit, no others have been completed for the last ten years.
- Relative absence of statistical robustness. Although individual studies may demonstrate appropriate statistical rigour (e.g. Abelson 2000, IPD 2000, Schaeffer and Millerink 1991) there is no preferred statistical approach which has been demonstrated by the studies reviewed.
- The prevalence of using a non-transactional as opposed to a transactional basis in comparative value movement assessments introduces a number of problems. The strength of using market value as a basis of comparison is that it is, to a greater extent than many surrogates, universal and so may be used as a directly comparable measure. Many of the studies reviewed here have used differential valuation bases i.e. market value, unimproved value, annual value etc. Whilst the use of rating valuations may be acceptable for analysis within a particular assessment jurisdiction, its broader application, especially when used comparatively, is open to question. Valuation literature recognises the 'accuracy' of mass appraisals may be more concerned with the achievement of equitable and relative values than of any market derived measure. Comparisons between different rating jurisdictions may also require caution due to the different bases of value adopted by local authorities throughout Australia.
- Degree of heritage control/restrictiveness. The variety of heritage controls between jurisdictions once again makes it difficult to generalise the results to other situations. There may thus be no way of identifying a common basis to assess the different studies. The review indicates that issues of regulative strictness versus impact on value have not been considered in the studies. The incidence of different federal, state/territory and local government heritage protection mechanisms will also tend to limit the relevance of any findings to specific situations.
- The focus on studies dealing with the built environment may have excluded other approaches which would be appropriate.
- The reviewed studies principally consider the impact of listing on residential property values where the sample may be more homogenous than for non-residential property. Care should be exercised in assuming such finding may be applicable to other land use types.

- There is no preferred valuation method which has become evident from the studies reviewed although there is some useful discussion in some of the studies of their adopted techniques.

## **4 Interpretation – the defining variables**

The hallmark of the review of the studies discussed in Sections 2 and 3 is their diversity and so, before proceeding to consider the variables relevant for developing any Stage 2 framework for this research, it may be useful to benchmark their common characteristics.

The defining variables elicited comprise: geographical context, building type, other variables and the methodology used in a study.

### **4.1 Geographical Contexts**

The vast majority of works examined, considered the effects of heritage listing on the valuation of urban properties in metropolitan areas. Only one of the studies examined used this geographical context as a variable for evaluation. This study by D'Arcy (1991), the then Victorian Valuer General, contrasted aggregated property valuations between metropolitan and non-metropolitan properties over the three-year period 1986-89. This investigation identified significantly different appreciations in residential property values between the two groups: 62% for metropolitan compared with 42% for non-metropolitan. For State listed properties in these groups the appreciations were 81% and 43% respectively. These figures suggest that, in the residential market, listed properties in non-metropolitan areas appreciated at much the same rate as non-listed properties while in metropolitan areas the appreciation of heritage properties was significantly greater. What the figures are unable to reveal is whether the metropolitan sample is affected by local market distortions. For example, the listed metropolitan properties may be concentrated in a few (probably inner-city) localities that appreciated at a rate in excess of the metropolitan average. Thus it cannot be established whether these listed properties that appreciated at 81% over the three years did so at a rate greater than their non-listed neighbours. Nevertheless, subject to these qualifications, the study does highlight significant differentials between geographic areas.

The only other study which incorporated geographical variables was that by Dominy (2001). This study was based on seven case studies – six in Sydney and only one in a provincial centre (Maitland). No significant difference was revealed between this example and the others evaluated in the case studies.

### **4.2 Building Type**

The majority of studies reviewed examined the impacts of heritage listing on residential properties. (Budge (1992), Krastins (1997), Quigley (1987), Urban Consulting Group (1995), Gale (1991), Rypkema (1993). Studies by D'Arcy (1991) and Shipley (2000) included both residential and non-residential properties in their studies while Dominy's (2001) study was restricted to commercial properties only.

This emphasis in the research towards residential buildings is in contrast with the nature of properties contained on most heritage lists where it is apparent that non-residential properties make up a majority of listings. Listings also tend to include a significant proportion of civic and religious properties which have received little attention in the studies. Looking beyond the heritage registers to the character precincts being developed by many local governments, there is clearly an emphasis on residential buildings and from this perspective the previous studies gain relevance.

### **4.3 Other Variables**

Many of the reviewed studies placed great emphasis on the difficulties of attributing shifts in the value of a property to a single factor such as the introduction of heritage controls. A number of studies were at pains to acknowledge the overriding importance of locational attributes and external market conditions in establishing property values. The high degree of variability in building suitability and condition was also an impediment to drawing conclusions about the effects of heritage listings. With these qualifications in mind some of the variables identified in the studies are identified below.

As a starting point it is useful to consider whether the listed property represents the highest and best use of the land. Keck (1999) uses this fundamental position as the key determinant for economic impact in a residential environment. However, in a commercial environment, Dominy (2001) found little difference between those properties which were the subject of major refurbishment and redevelopment schemes and those which were retained in their current form. A confidential report to Toowoomba City Council (HTW 2001) identifies the four fundamental approaches to property valuation and notes that the income capitalization method is not sensitive to consideration of redevelopment potential. (Author's note: it would be unusual to expect it would be used for this purpose.)

The study by Dominy (2001) focused on commercial development projects and concluded that a major determinant of project feasibility was derived from the use of floor space bonuses which accompanied the particular heritage listings. This variable is not widely used and, where adopted, is generally confined to commercial precincts. Assessing the presence and value of such features of a property is likely to present problems. It does, however, lead to the wider issue of certainty.

Studies such as those by Dominy (2001) and HTW (2001) have highlighted the impact of uncertainty caused by heritage listing. There have been several dimensions to this problem identified in the studies. Firstly there is a general lack of experience in the broader community in dealing with the management and development of places subjected to heritage controls given that in Queensland they have been in place for less than 15 years. For some this is an immediate deterrent. The uncertainty is heightened by a large variation in the nature and extent of controls and approval processes as established by the State and various local governments. Some articles have also expressed a lack of confidence in the duration and complexity of the additional approval processes imposed upon listed properties.

At another level there may be uncertainty as to what constraints may be imposed as a result of the property's listing. In some instances it is not clear from the listing as to whether the property is listed for its façade or for its interior (or both) and this uncertainty may affect the potential for adaptive reuse of the property. Even when this is clear there is a high level of subjectivity regarding what will be approved as acceptable modifications to the fabric. The cost and difficulties in introducing new building services are highlighted in a paper by Hefferan (1997).

### **4.4 Methodological Approaches**

There were three general approaches that were followed in the studies reviewed. These were an aggregated methodology which can be termed a macro approach, a case study approach and qualitative/attitudinal survey approach.



#### **4.4.1 The aggregated approach**

This macro methodology (also known as the average property value trend) involves the identification of heritage listed properties in an area and aggregating their combined property value at two points in time and comparing any movements in values with those of the non-listed properties over the same period. The largest of these studies examined the sale history of almost 3000 properties affected by the Ontario Heritage Act (Shiple 2000). In Australia, D'Arcy's 1991 study examined 545 properties over a three-year period. Comments have been made earlier concerning the geographical diversity of properties covered in this study.

Several of these studies have focused on smaller geographical areas but have increased the timeframe to enhance the number of data captures. The most well known of these is the study of Maldon which examined sales records between 1970 and 1990 (Budge 1992). Rypkema's study of Indiana (Anon. 1998) spanned a 15-year period. A study of 100 properties in Geelong tracked movements in values over a 12-year period (Krustins 1997). It has been assumed that these studies are tracking sales data – not statutory (UCV) data.

#### **4.4.2 The case study approach**

The case study approach has been employed in several studies. In examining the impact of heritage controls on commercial development, Dominy (2001) examined seven projects in Sydney, Parramatta and Maitland. The *Economic Effects of Heritage Listing* study (UCG 1995) used six properties from various Australian capital cities as case studies. The transferability of its conclusion are somewhat limited by the choice of properties. For example, the Brisbane-located case study examined the adaptation of a Teneriffe Woolstore for residential use. Tonkin (1996) also used a single case study as a vehicle to identify the effects of heritage listing.

A variation of the case study approach was adopted in the examination of decisions of the Land Court which have dealt with the establishment of unimproved capital values of land after heritage listings. (HTW 2001)

#### **4.4.3 The qualitative approach**

The third group of methodologies identified were those termed qualitative attitudinal surveys. Quigley's 1987 research in Adelaide surveyed public perceptions of heritage listing on property values. Other studies such as UCG (1995) have surveyed real estate agents active in historical residential areas in Australian cities.

## **5 Further research**

It is anticipated that, having reviewed a range of international studies and set these in the context of local practice, a matrix can be developed which may provide a framework which may be used to generate a more detailed review of the impact of heritage listing on property value in the context of particular localities and jurisdictions.

Once the matrix has been generated it could be applied in the circumstances where current study is considered sparse. This could include:

- Targeting identified categories of property where heritage listing is nominated as having affected value – the macro perspective.

## Managing Cultural Heritage: Heritage Listing and Property Value

- Undertaking detailed case studies (property analyses, valuations) of the impact of heritage listing on value for a sample of properties within each category identified, including stakeholder views – the micro perspective.

Stakeholders may include, inter alia, property owners and/or their professional advisors such as asset managers or valuers; real estate agents; public sector valuers. This may be undertaken by means of interviews, surveys, workshop or focus group meetings for example.

- Consideration and review of valuation methodologies appropriate for the assessment of heritage value
- Analysis and review of outcomes of the case studies and identification of options based on these findings
- Extension of studies to ascertain the impacts of heritage listing on non-residential property
- Generation of a project report which will include recommendations for change based on its findings
- Production of 'Notes for Guidance' for local councils in respect of the impacts identified.

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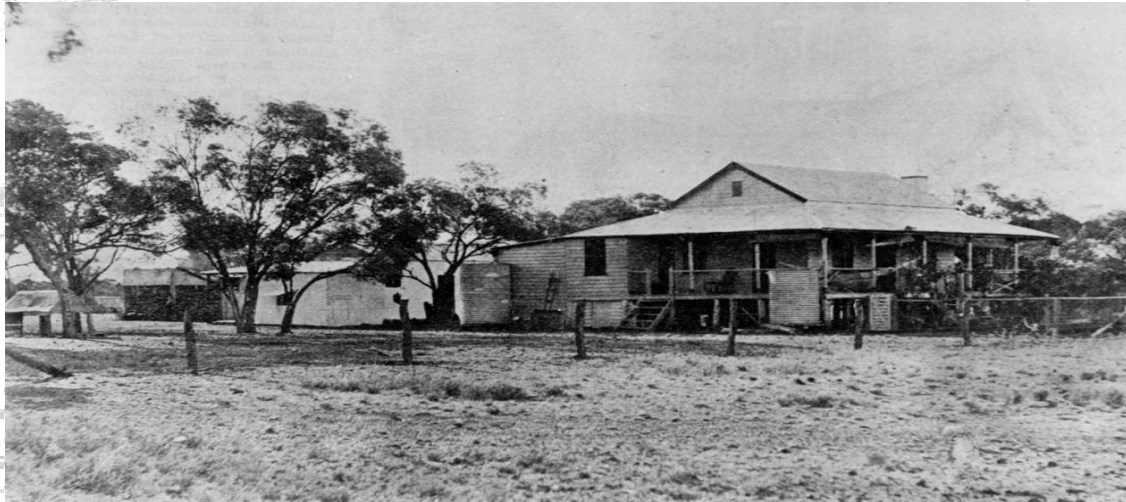
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ABP  
the Dean's Lecture Series  
2005

The impact of heritage listing  
on property value  
*Dr Lynne Armitage*

# 1 Introduction



1. **Introduction: structure of the talk, purpose and context**
2. **Perspectives: issues of concern; stakeholders; existing studies**
3. **Boundaries: methodologies, variables, data**
4. **Findings, impacts on value**
5. **Prospects for policy initiatives, development of the study**

# Purpose of the study

- a research report into the effects of heritage listing on property value
- application: to enhance guidelines for the management of cultural heritage in Queensland; policy proposals
- funded by Cultural Heritage Branch, Queensland Environmental Protection Agency

# Context

## Queensland heritage background

### Origins in planning schemes

- 1978: Brisbane – unspecified locations, part of the decision-making process
- 1985: Cook Shire - DCP 31 listed places
- 1989: Brisbane Town Plan
  - 90 sites listed for retention, all in CBD
  - penalties for demolition
  - compensation recognised inc TDRs



# 1990 broader legislative controls introduced

- Heritage Building Protection Act 1990
  - 2 year sunset clause; introduced an interim register
- Queensland Heritage Act 1992
  - current legislation: places of State significance
  - Queensland Heritage Register - 'the state register' – approx 1300 listings
  - prior approval for carrying out a variety of works including demolition, alterations and additions
  - provisional listings and injunctions
  - benefits: reduced rates and land tax; tax rebates for approved conservation expenditure
- Current situation under local planning schemes
  - Diverse – refer Heritage Register Data

# 2 Perspectives



- Stakeholders
- Issues of concern
- Existing studies

# Stakeholders

- Individually and in groups
  - Owners: individuals, corporate, public and private
  - Ratepayers
  - Voters
- The community
- The gatekeepers
  - state and local authorities, mortgagees ...
- Special interest groups
- Those yet to be born
- Characterised by their diversity of interests

# Issues of concern

## **Constraints – actual and perceived**

- impact on property value...
- impact on development potential...
- concerns over heavy hand of bureaucracy...
- highly variable in the detail between schemes beyond the requirement to conserve the visible exterior of the place

## **Limited comfort of inducements ...**

- expansion of lawful use rights
- relaxations of development obligations or restrictions on site development
- floorspace bonuses and transferable development rights (TDRs)
- reduced local authority development fees or free heritage advice

# Studies reviewed

## Scope

- timeframe: 1990+
- 25 reports and articles reviewed
- a 160 entry bibliography generated, 20% having a TDR focus
- mostly Australian – predominantly Victorian, two from the USA and one (continuing) from the UK
- small size of the sample recognised

## Broad findings

- only 160 heritage references were found
- few Australian studies
- the majority of all studies were over 10 years old

# 3 Boundaries



- **Methodologies**
- **Variables**
- **Data**

# Methodologies

1. This is a pilot study which
  - reviews key domestic and international studies
  - elicits their scope, application and methodology
  - evaluates the studies on basis of the transferability of their findings
  - and their replicability
2. Using the material derived
  - develops a framework for distinguishing a range of contextual conditions relevant to the assessment of impacts
3. Reviews the availability and accessibility of data from heritage registers
4. Generates a specification for a subsequent study

# Variables

## Common characteristics

- building type – predominantly residential
- geographical context – urban metropolitan areas
- other variables
  - frequent concern for attributing shifts in property value to the incidence of heritage listing
  - impact of uncertainty due to listing
  - validity of assessments of development potential



# Data

- Variations and inconsistencies of data collected and methods used
- Sample size of studies highly variable
- Purpose of studies created inconsistencies
- International context made comparisons difficult
- Relatively small sample size

# Valuation concerns

- Limitations of studies reviewed
  - sample size  
(except IPD: 10% of \$75 billion of property over 18 years)
  - age of studies
  - most studies lack statistical rigour
  - prevalence of non-transactional values i.e. non-market evidence
  - variations in degree and character of heritage controls
  - focus on the built environment may exclude impact of other factors on value
  - residential focus of many studies may limit relevance for other land-use types
  - no consistent method of valuation was apparent

# 4 Findings



- **Impacts on value**
- **Implications**

# Impacts on value

1. diversity
2. market context is of paramount importance to the impact of listing on property value
3. marginal impact on residential property (*gross oversimplification*)
4. future value of asset more certain than otherwise

# Impacts on value



5. greater potential for negative impact on non-residential property
6. nature of the heritage control is significant
7. constraint to development potential (role of TDRs)
8. relative insignificance of listing

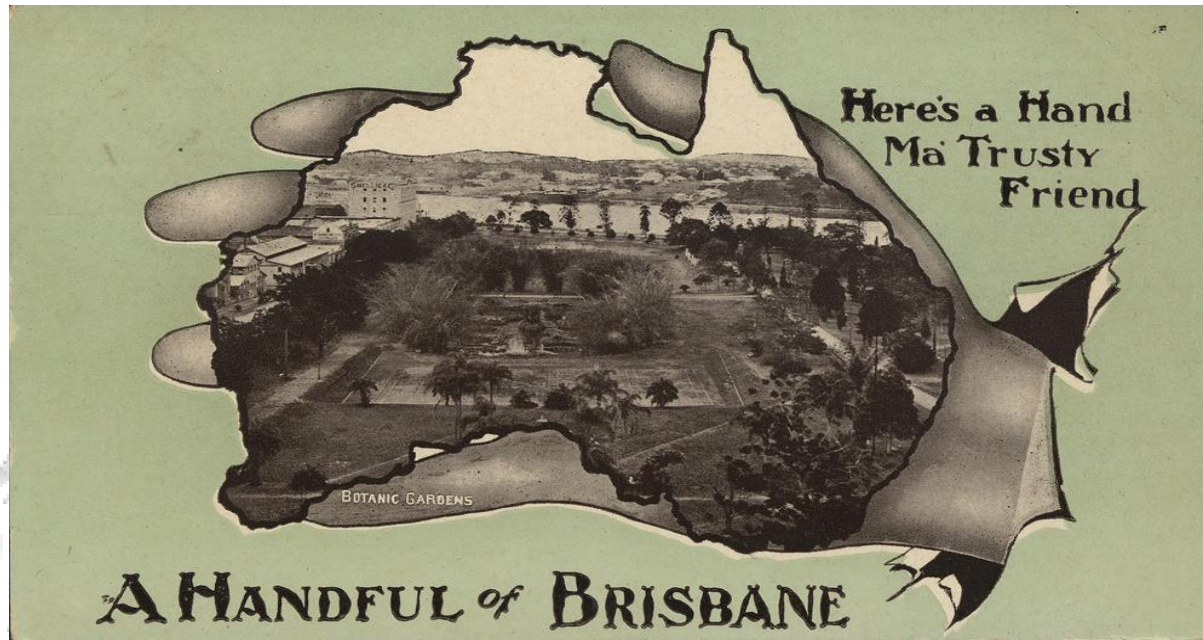
# 5 Policy initiatives



- Queensland Stage 2
- Victoria
- State and local governments
- Corporate owners

# Opportunities

- Stage 2 of the Queensland study
- Application to the local, Victorian, context
- Suggestions for target clients for the subsequent research study/policy document: corporate real estate implications
- Institutional owners of iconic premises – post offices, banks, government offices, churches



All offer of assistance regarding local contacts and opportunities for further research or consultancy warmly received...

Thank you

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